

Part (d) With reference to the information in the extract from the due diligence report, and using a tabular format:	
Part (d)(i) Describe specific examples of how Nonni could manipulate the data in the revenue and receivables file for FY2018 in order to keep her promise of an increase in revenue of at least 30%	
1. Nonni might include fictitious/duplicate membership transactions in the revenue and receivables file for members who do not exist.	1
2. For annual members, she might include the full annual amount in a given month and not the monthly component as revenue in a given month (not recognised over a year). Only applicable for memberships that fall over two financial years.	1
3. For annual members, she might include the full monthly membership fee and not the discounted monthly/incorrectly discounted component of the annual amount as revenue (recognised over the year, but not at the discounted amount).	1
4. She might inflate the membership fees by updating the amounts in the transaction file directly/manually (all membership types) .	1
5. Nonni may inflate the membership fees by including fictitious ad hoc membership fees .	1
6. She might recognise the initiation fee in a single month , rather than over the term of the membership, although the requirements of IFRS 15 would need to be considered to determine if the initiation fee is allocated to the performance obligations in the contract. Only applicable for memberships that fall over two financial year or include initiation more than once for members.	1
7. She might include revenue for members whose access has already expired .	1
8. She might include revenue before/after the members' membership commenced/expired . (cut off/overstatement)	1
9. Nonni might include the full membership fee for W&R members, rather than the discounted amount or delete the discount field relating to W&R members/ Since there are different percentages of discount for W&R members, the incorrect percentage may be deducted, for example, Nonni may only deduct 40% off a Black members' fee.	1
10. She might include membership fees for members whose membership should have been terminated due to non-payment of fees or where no amount is reflected as outstanding since such balance has been deleted.	1
11. Nonni might inflate the 2018 revenue by R636,000 by including the monthly membership fee of the 100 complementary memberships given to commemorate the opening of the 15th gym.	1
12. Nonni might incorrectly recognise the initiation fee for the 100 complementary memberships .	
13. She might manually manipulate / inflate the total of the revenue and receivables file that is posted to the revenue general ledger account.	1
14. Foreign revenue relating to Mozambique operations maybe translated at the incorrect spot rates to intentionally inflate the revenue recognised.	1
15. Nonni might change the type of membership for example from white to black.	1
16. Nonni might not exclude VAT in the calculation of revenue for some membership fees in order to manipulate revenue.	1
	Available
	16
	Maximum
	11
Part (d)(ii)	
For each example listed, describe the specific data CAAT procedures that could be performed on the revenue and receivables files to detect the manipulation.	
1. General procedures	
1.1 Generate a report that provides a log of all edits made to the transaction file and inspect for any abnormal or manual entries to identify adjustments made.	1
1.2 Generate a report whereby membership revenue and membership numbers on a month to month and annual basis per location is extracted and analyse disconnect/inconsistency between number of members' vs revenue amount based on location. (e.g. low number of members, high rand value of fees in small locations).	1
2. Fictitious/duplicate membership	
2.1 Generate an exception report for any membership records with blank fields in <i>Wizard</i> , for example member number, date joined, gym or type of membership, in order to identify fictitious members.	1
2.2 Extract a statistical sample of membership contracts from the transaction file, and generate a report of the membership data for comparison with the details per the member's signed agreements .	1
2.3 Generate a report of all duplicate membership details such as ID numbers/names/membership numbers to identify members that have multiple membership.	1

2.4	Compare the membership numbers in the revenue and receivables file to the numbers in the membership database to identify numbers that do not exist / are no longer active in the database but for whom revenue is still being recognised	1
2.5	Generate an exception report for any membership records where the current month's revenue is reflected without any amount in the current month's receipts from members or amount outstanding fields.	1
2.6	Generate an exception report for any membership records of ad hoc members where the current month's revenue is reflected without a corresponding amount in the 'current month's receipts from members' field.	1
2.7	Make use of data CAATs to calculate the expected total fee revenue, based on the average fee per member and the number of members for the current year and compare it to the prior year average fee per member for reasonability.	1
2.8	Generate an exception report, based on journal entry references, of entries appearing in the Accounts Receivable Account that are subsequently reversed/processed after year end.	1
3. Full annual amount in a given month (not recognised over a year)		
3.1	Generate an exception report for any membership records where the current month's revenue is > R198 for Annual: White or > R398 for Annual: Green or > R598 for Annual: Black types of membership in order to identify whether annual fees have been recognised in a single month, rather than recognised on a monthly basis.	1
4. Full monthly membership fee and not the discounted monthly component (recognised over the year, but not at the discounted amount).		
4.1	Generate an exception report for any membership fee paid on a once-off basis where the current month's revenue is > R180 for Annual: White or > R365 for Annual: Green or > R530 for Annual: Black types of membership.	1
4.2	Extract a report from the revenue and receivables file of all membership numbers and their associated discount rates for annual payments (recalculation).	
5. Updating the amounts in the transaction file directly.		
5.1	Generate a report that calculates the revenue per member based on their membership type and run a comparison against revenue recognised in order to identify differences./Extract a report of any fees more than the maximum allowed per each type of membership, e.g. R598) as proof of her inflating the fee	1
5.2	Generate an exception report for any membership records of ad hoc members where, for weekly members, the days between the contract expiry date and date joined divided by 7 x R200 or, for daily members, the days between the contract expiry date and date joined x R50, is more than the amount in the current month's revenue.	1
6. Nonni may inflate the membership fees by including fictitious ad hoc membership fees		
6.1	Generate an exception report for all ad-hoc membership fees that have been recognised without a corresponding payment (cash or credit card receipt).	1
7. Initiation fee in a single month, rather than over the term of the membership		
7.1	Generate an exception report for all new members where the initiation fee was recognised and investigate if it was recognised correctly.	1
8. Include revenue for members whose access has already expired.		
8.1	Generate an exception report for any membership records where the contract expiry date is before the file date (30 June for the example file) and the current month's revenue is >R0.	1
9. Include revenue before/after the members' membership commenced/expired.		
9.1	Generate an exception report for any membership records where the file date is earlier than the date joined and for which the current month's revenue is > 0.	1
9.2	Generate an exception report for any membership records for which revenue is recognised where the date joined is after 31 December 2018.	1
9.3	Generate an exception report where the total revenue for a specific member for the current financial year, exceeds the number of active membership months for the financial year multiplied by the monthly fee	1
10. Incorrect discounted amount/percentage (W&R)		
10.1	Generate an exception report for any membership records where the current month's revenue for any W&R members is > R198 - the W&R discount column for Monthly: White or > R398 - the W&R discount column for Monthly: Green or > R598 - the W&R discount column for Monthly: Black type of membership.	1

10.2	Extract a report from the revenue and receivables file of all membership numbers and their associated discount rates (for comparison to the reports / statements received from W&R) OR extract a report comparing the membership type and discount loaded (recalculation)	1	
11. Include membership fees for terminated due to non-payment of fees or where no amount is reflected as outstanding since such balance has been deleted.			
11.1	Generate an exception report for any membership records where the amount outstanding is more than R198 for Monthly: White or R398 for Monthly: Green or R598 for Monthly: Black.	1	
11.2	Generate an exception report where amounts outstanding by members have been written off in order to identify where memberships have not been terminated as a result of non-payment of fees.	1	
12. Including the monthly membership fee of the 100 complementary memberships			
12.1	Generate a report to ensure there are at least a 100 memberships at zero membership fee.	1	
13. Nonni might incorrectly recognise the initiation fee for the 100 complementary memberships.			
13.1	Generate a report for the complementary 100 memberships given by Nonni and inspect that the initiation fee was not charged.	1	
14. Manually manipulate / inflate the total of the revenue and receivables file that is posted to the revenue general ledger account.			
14.1	Re-perform the calculation of the total of the current month's revenue column and generate an exception report if the recalculated value differs from the total value in the file.	1	
15. Foreign revenue translated at the incorrect spot rates			
15.1	Generate a report of all revenue recognised from the Mozambique operations and apply an appropriate spot rate (obtained from a credible external source) to determine the revenue as per the local currency to verify it correlates with Mozambique membership rates.	1	
16. Change the type of membership			
16.1	Extract a report with all changes to members' types of memberships and compare the membership to the original signed contract and any addendums for upgrades signed by the member.	1	
17. not exclude VAT			
17.1	For a sample of transactions recalculate the amount recognized to determine if it corresponds to the membership fee price list excluding VAT	1	
		Available	30
		Maximum	11
		Communication skills – clarity of expression	1
		Total for part d	23

Part (e) Describe the agreed-upon procedures, other than data CAAT procedures, you would request the auditors to perform at each individual gym to identify any entries for fictitious members on the revenue and receivables file and to verify the accuracy of the different membership plans reflected in the revenue and receivables file.		
1	Obtain a list of all the specific gym's members listed on the <i>Wizard</i> system as active members during the period 1/1/2018 to 31/12/2018 as recorded in the revenue and receivables file.	1
2	For a sample of active members obtain their membership contracts , and inspect that –	
2.1	all pertinent personal details have been completed.	1
2.2	the contract is signed by the member/ signed by both parties ;	1
2.3	the signature of the designated official is that of the relevant gym manager ;	1
2.4	the commencement date of the contract is correctly reflected in the revenue and receivables file as a contract that could commence in a prior financial year and run into the current year;	1
2.5	the expiry date of the contract is correctly reflected in the revenue and receivables file as a contract that could terminate in the current year; and	1
2.6	the membership type (i.e. monthly white or annual green, etc.) listed on the <i>Wizard</i> membership database and revenue and receivables files, agrees with the membership type stated in the contract.	1
2.7	inspect that every contract is supported by a copy of a proof of identity for example ID document, driver's license, passport etc. and that all the details thereon agree with the personal details provided.	1
2.8	For a sample of active members, cross reference to a system generated access log by location to determine if the member uses that gym location (assist in identifying fictitious members)	
2.9	perform a recalculation of expected revenue based on the members information on the list obtained	1
3	Use the contact details of the member as contained in the contract to contact the member to confirm his/her membership/physically verify member through access logs ;	1

4	Select a sample of receipts in the cash book/ bank statement from members and reconcile back to the revenue recognised in the revenue and receivables file. This provides proof payment by a third party.	1	
5	Confirm in writing the membership numbers and revenue for the year directly from each location and compare this to the Amabhuku system.	1	
6	Recalculate average membership level for the period per location and total expected revenue based on this for overall reasonability – if the revenue is higher than expected per location, increase detailed substantive testing	1	
7	Select a sample of the last 10 members joined and inspect contracts verify they are being recognised in the correct year (i.e. start date prior to 31 December 2018).	1	
8	Obtain a confirmation from W&R of total members at the gym receiving discounts , recalculate expected revenue from these members and compare this to the revenue recognised on the Wizard and Amabhuku systems to identify whether revenue could have been recognised in respect of fictitious W&R members.	1	
		Available	16
		Maximum	6
		Total for part (e)	6

Part (f) Describe, with reference to the information contained in the scenario only, what aspects Mcebisi should consider before Sharp continues to act as Ezempilo’s auditor for FY2019.		
1	Mcebisi is the audit engagement partner and CA(SA) , is required to adhere to the SAICA CPC, is responsible for the firm’s requirement that it should achieve the “ethical requirements” objective of ISQC1 and review on the audit, and accordingly ultimately responsible for identifying and reporting the aspect as deemed necessary (IS 220).	1
2	Mcebisi has been Ezempilo’s designated auditor since the company’s incorporation / Mcebisi has also been friends with Nonni, Ezempilo’s CEO. This involvement with the company over many years may create the following threats to independence : <ul style="list-style-type: none"> • self-interest and familiarity <ul style="list-style-type: none"> - The long association with Ezempilo may result in Sharp becoming familiar with the client and not applying the relevant professional scepticism. / As a result of the friendship between Mcebisi and Nonni, Mcebisi may overlook issues at the company (independence in mind and appearance) • intimidation threat Nonni might use her friendship with Mcebisi to convince/intimidate him to turn a blind eye to any irregularities in Ezempilo’s financial records. 	1/2 1/2 1 1/2 1
	The threat is significant as the Sharp has been the auditor for the past 15 years and/or Nonni is the CEO and Mcebisi is the audit partner whom both have significant influence.	1
	Safeguard such as getting a quality control reviewer must be implemented, as Mcebisi is the only partner and cannot rotate.	1
	In terms of <i>Companies Act</i> , Section 92 – audit partner rotation every five years should also be considered, if applicable.	1
3	Mcebisi owns the distribution licences of the membership (<i>Wizard</i>) and accounting (<i>Amabhuku</i>) application used by Ezempilo/Mcebisi, which could create the following threats to independence : <ul style="list-style-type: none"> • self-interest It is a conflict of interest/significant business relationship that could override his professional judgement. • self-review Mcebisi distributes and owns the licences to the systems that is producing the information that he and the audit team will be verifying 	1/2 1 1/2 1
	The threat is significant as Mcebisi might not report on any weaknesses within the system therefore not acting with the necessary professional competence and due care.	1
	No safeguards exist to eliminate or reduce this risk to acceptable level.	1
	In terms of <i>Companies Act</i> , Section 90(2) – the installation of the computer systems can be viewed as possible execution/assistance of accounting and bookkeeping services, which would disqualify the auditor.	1
4	As Nonni always contacts Mcebisi when a new gym is opened to help with the systems, his involvement in the installation of the systems at the Mozambican gyms and Mcebisi’s involvement with the initial	

	<p>selection and implementation of the current software packages could create the following threats to independence:</p> <ul style="list-style-type: none"> • self-review Mcebisi is installing the information systems that is producing the information that he and the audit team will be verifying • self-interest As he would receive additional non-audit fees for his involvement with the installation of the systems, which could override his professional judgement on the audit engagement. His involvement (distribution licences and installation) with Ezempilo's systems could also create the impression to outside parties that he is not independent. 	<p>½ 1 ½ 1 1</p>
	The threat is significant as Mcebisi is installing the information systems that is producing the information that he and the audit team will be verifying and receiving additional income from this service.	1
	No safeguards exist to eliminate or reduce this risk to an acceptable level.	1
5	<p>Sharp is a small auditing firm consisting only of five auditing staff members and Ezempilo's business has expanded to such an extent that the firm might not have the capacity to audit the company and thereby creating a self-interest threat to professional competence and due care:</p> <ul style="list-style-type: none"> • The firm might not have the necessary resources to audit the additional gyms in Mozambique (legislation) / 20 gyms across South Africa. • Due to Ezempilo's size and the risks associated with the audit, an independent review partner need to be appointed. 	<p>½ 1 1</p>
	A safeguard would be to obtain the necessary knowledge or seek appropriate expert advice, or/and another partner from another firm could be considered as independent reviewer (as Mcebisi is the only partner)	1 1
6	<p>Nonni gave complementary membership to all the Sharp's staff members to commemorate the company's 15th anniversary. The free membership could result in the following threat to the teams independence/objectivity (gifts and hospitality):</p> <ul style="list-style-type: none"> • self-interest The complementary membership is worth a minimum of R6 360 and is a financial gain to the staff members. • familiarity threat By accepting the gift the auditors might be too sympathetic to their interests or too accepting of their work • intimidation threat The intention of the gift may be to influence the auditor 	<p>½ 1 ½ 1 ½ 1</p>
	The significance of the threat will have to be determined based on the nature, value and intent of the offer and based on the value this might be significant at R64 584 per year (R598 x 12 x 9) which excludes the initiation fee.	1
	If considered significant, a safeguard needs to be applied to eliminate or reduce the risk to an acceptable level, if it cannot be reduced/eliminated then such an offer must not be accepted	1
7	<p>Integrity of management should be considered given revenue growth year on year that may be a result of fictitious members as pointed out in the due diligence report. The following factors increase the risk:</p> <ul style="list-style-type: none"> • Nonni promised a revenue of 30%, which increases the risk that revenue may be overstated through manipulation; • Due to the upcoming sale, the Ezempilo's revenue and assets may be overstated to negotiate a higher sales price • The non-compliance with laws and regulations (Companies Act 90/92) by Nonni 	<p>1 1 1 1</p>
Available		35.5
<i>Communication skills – clarity of expression</i>		1
Total for part (f)		13